

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SOE-02 AID-05 CEA-01 CIAE-00
COME-00 DODE-00 EB-08 DOE-15 H-02 INR-10 INT-05
L-03 NSAE-00 NSC-05 OMB-01 PM-05 ICA-20 OES-09
SP-02 SS-15 STR-07 TRSE-00 ACDA-12 PA-02 FRB-01
XMB-04 OPIC-06 LAB-04 SIL-01 /158 W
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FM AMEMBASSY LONDON
TO SECSTATE WASHDC 8462
INFO AMEMBASSY BRUSSELS
AMEMBASSY DUBLIN
AMEMBASSY OSLO
AMEMBASSY PARIS

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USEEC
USOECD

E. O. 11652: N/A
TAGS: ENRG, UK, EFIN, EINV
SUBJECT: POSSIBLE INCREASE IN BRITISH OIL TAX

1. MAJOR PRESS STORIES REPORT THAT HMG MAY SOON SEEK
AUTHORITY FROM PARLIAMENT TO SUBSTANTIALLY INCREASE
THE TAX TAKE FROM COMPANIES OPERATING IN THE NORTH
SEA. GOVERNMENT OFFICIALS ARE REFUSING ALL COMMENT
AT PRESENT.

2. THE PRESS SUGGESTS THAT THE PETROLEUM REVENUE TAX
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(PRT) MAY BE RAISED FROM 45 TO 60 PERCENT AND THAT
THE 75 PERCENT "UPLIFT" PORTION OF THE 175-PERCENT-
OF-INVESTMENT EXEMPTION FROM PRT MAY BE REDUCED OR
ELIMINATED. REPORTEDLY, LORD KEARTON, CHAIRMAN OF
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THE BRITISH NATIONAL OIL CORPORATION (BNOC), FEELS
THE PRT IS TOO LIBERAL, ESPECIALLY WITH RESPECT TO
THE "UPLIFT".

3. BRITAIN'S PRT IS IN ADDITION TO CORPORATE INCOME
TAX AND ROYALTY PAYMENTS, AND IT IS ANTICIPATED THAT
COMPANIES WOULD PAY OVER 70 PERCENT OF GROSS REVENUES

IN THESE COMBINED PAYMENTS ONCE THE BASIC 175 PERCENT EXEMPTION HAS RUN ITS COURSE. CURRENTLY, THE REVENUE EXPECTATION SEEMS ON COURSE. AS THE MAJOR OIL PRODUCTION BUILD-UP IS STILL IN ITS EARLY STAGES (NET SELF-SUFFICIENCY IS STILL AT LEAST TWO YEARS AWAY), OIL AND GAS REVENUES ARE STILL SMALL. THE GOVERNMENT EXPECTS REVENUES TO APPROACH 4 BILLION POUNDS STERLING IN THE MID-1980'S.

4. THE 75 PERCENT "UPLIFT" INCLUDED IN THE EXEMPTION WAS RATIONALIZED BY HIGH INTEREST CHARGES ON NORTH SEA PROJECT LOANS, MANY OF WHICH REPORTEDLY COST 15 PERCENT ANNUALLY. MOST NORTH SEA DEVELOPMENT PROJECTS ARE TAKING FOUR TO FIVE YEARS BEFORE SIGNIFICANT PRODUCTION ACTIVITY IS ACHIEVED - ENTIRELY ASIDE FROM THE EARLIER EXPLORATION AND APPRAISAL EXPENSES. THUS, THE PROFITABILITY OF EXISTING U.S. INVESTMENT IN THE NORTH SEA MIGHT BE AFFECTED IF SUCH TAX CHARGES ARE INDEED FORTHCOMING. FUTURE INVESTMENT DECISIONS, OF COURSE, COULD ALSO BE ALTERED.

5. WE WILL REPORT FURTHER WHEN GOVERNMENT COMMENT BECOMES AVAILABLE AND WHEN IT BECOMES KNOWN WHETHER ANY PROPOSED TAX CHANGES ARE TO APPLY TO EXISTING INVESTMENTS.

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BREWSTER

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